



## **Selling investors on state's high-tech firms**

### **High-powered government 'sales call' gathers elite group to talk strategy on investment dollars**

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At an unprecedented gathering in the main living room of the governor's mansion, top state officials earlier this month courted an elite group of executives who control hundreds of millions of investment dollars.

The message: Help grow Wisconsin's young, high-tech companies.

The meeting represented the first time the state has brought together such an influential group for this purpose, and it was a strong indicator of the increasing support from a variety of sources for building Wisconsin's high-growth economy.

It also allowed state officials to float an idea for a new public-private partnership that would help strategically connect fast-growing businesses with venture capital and other financing.

"Never has there been this kind of a sales call by the government on this level with this kind of a gathering," said Mark D. Bugher, director of Madison's University Research Park, who made a presentation at the event.

Shoulder-to-shoulder at the crowded, invitation-only event were executives from Wisconsin-based pension and endowment funds and other big pools of money, including the State of Wisconsin Investment Board, Northwestern Mutual Life Insurance Co. and American Family Insurance.

Also attending were representatives of young entrepreneurial companies such as Madison's Guild.com and Virent Energy Systems, as well as more established players including Appleton and Stora Enso - along with venture capitalists from Robert W. Baird, Mason Wells and other financing firms from Midwestern cities like Chicago and Minneapolis.

Gov. Jim Doyle and his wife, Jessica, hosted the event with help from several of Doyle's cabinet members.

"He's really got a well-orchestrated team that was engaging with the people in that room. They understand the full spectrum of technology transfer and company formation," said Craig Christianson, director of licensing at the Wisconsin Alumni Research Foundation, or WARF, who was at the meeting.

### **A call to action**

Going in, Paul J. Karch wondered if the pitch would be for funding state companies, without consideration for the economics. The vice president for retirement income plans at the former Appleton Papers Inc. said he was pleasantly surprised to find it focused instead on Wisconsin's high-tech companies as a good investment opportunity.

That message has already prompted Karch to act.

Appleton's pension fund, at \$230 million, isn't big enough to make direct private equity investments.

"But we have spoken to our investment adviser and said, 'Please check this out,' to look at it as a good investment opportunity," Karch said.

The meeting reminded Karch of many he attended while working in San Diego in the early 1990s, when that area was trying to build what ultimately was a successful biotech effort, he said.

"I was impressed with the concept and the amount of activity in Wisconsin," he said.

The concept was a call to action for Wisconsin-based institutional investors and a presentation about how the state can better sell itself to venture capitalists.

Lorrie Keating Heinemann, secretary of the state Department of Financial Institutions, included three suggestions for institutional investors in the call to action:

- Allocate at least 1% of your portfolio to alternative investments, including venture capital.
- Invest with top-performing venture capitalists in the Midwest because they invest more in deals here.
- Suggest to any venture capital firms you use on the coasts that they invest in Wisconsin deals.

"No one is asking investment managers to overlook their fiduciary responsibilities," said Tom King, vice president of investments for American Family Insurance, who attended

the meeting. "The University of Wisconsin is one of the top universities in terms of dollars spent on research, but there simply is not enough capital to pursue all of the opportunities that exist there."

Heinemann also discussed her agency's idea for a Wisconsin venture center that would try to multiply those opportunities by using many of the tactics that have been successful at Cleveland's BioEnterprise Center.

"We need to understand what the market is seeking, what's driving capital right now," Heinemann said. "Then we need to, on the back end, develop those types of business opportunities that will attract the capital."

### **Cleveland's model**

BioEnterprise helped the Cleveland area pull in \$170 million of investments in its young companies in 2005, up from \$30 million when the program was launched in 2002, said Baiju R. Shah, BioEnterprise's president.

BioEnterprise each year helps 15 to 20 young local companies groom themselves for angel, venture capital or other types of funding. The center determines which companies it will work with by keeping in touch with about 130 venture funds and 25 investment banks to gauge the types of businesses venture capitalists are looking to fund.

UW-Madison is fourth-biggest for research spending among all U.S. academic institutions, according to the National Science Foundation's most recent figures. Despite having such a research powerhouse, the state garnered just 4% of the venture capital invested in seven Midwestern states between 1996 and 2006, according to Venture Source, Capital Innovations and the state Department of Financial Institutions.

"We do have the technology, and increasingly the entrepreneurial talent, and we've got significant institutional assets in the state. Unleashing even just a small portion of those assets to be deployed locally or regionally could do a lot of good," said Paul Carbone, managing partner of Baird Venture Partners, who attended the meeting.

The state private equity picture is improving, Heinemann said. Wisconsin has 15 organized angel investing networks that invest in very early-stage companies, up from six in 2004, she said.

The state needs to build on that and bring in more venture capitalists to continue funding the companies as they grow, Heinemann said.

"We do a lot of talking about lack of management talent and capital, but frankly, I think we just need to get more strategic in our state and start selling," she said.